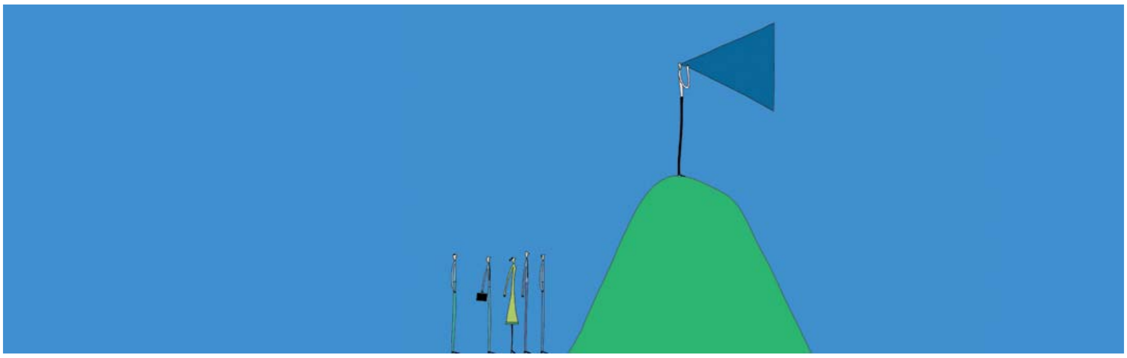
Kennet

MedeAnalytics
MEASURE. MANAGE. LEAD.℠

James Quist



MedeAnalytics

Introducing MedeAnalytics

MedeAnalytics enables healthcare organizations to achieve advanced clinical, operational and financial outcomes through on-demand, performance intelligence solutions delivered as a service by experienced healthcare professionals. Over 700 healthcare organizations in the U.S. and U.K. have experienced quick ROI and sustainable value from MedeAnalytics solutions with low total cost of ownership. The company has been recently recognized by Inc. Magazine as one of the 500 most rapidly growing privately-held companies in the United States.

In the beginning

MedeAnalytics (formerly known as MedeFinance) began as a vision to solve a common set of challenges facing healthcare financial professionals in 1994, and launched as a company in 2001 with the release of on-demand analytic software and services for improving financial performance in the healthcare industry.

In 2004, once MedeAnalytics had proven the value of its service to multiple healthcare providers, the company raised growth capital from Kennet to roll out its offering across the US and beyond.

Since then, MedeAnalytics has become the market leader in revenue analytics for healthcare providers, and is leading innovation in financial analytics for health insurance companies. The company has increased its revenues by a factor of more than 10x and has successfully entered the European market.

The six-year journey to launch and four-year company-building process that followed were paved with lessons that can serve as legitimate guidelines for building a successful venture the old fashioned way – bootstrapping through the early years.

Q&A

Name: James T.Quist

Title: Executive Chairman and Founder

Company: MedeAnalytics

Headquarters: Emeryville, California

Date Founded: 1994

Venture Capital Raised/Used: $5 million

Exit: Recapitalization led by Bain Capital Ventures.

Company Description: MedeAnalytics is the leader in innovative analytic technology solutions for the Healthcare industry. These solutions enable healthcare organisations to improve their operational, clinical and financial performance.

When did you take your first venture funding?

We initially opted to take a modest sum of angel investment and instead relied primarily on real customer revenues. This was a novel concept in the late nineties, but one that my 20 years of industry experience assured me would offer the most opportunity, flexibility, and ultimately guarantee the founders could maintain the largest stake in the company.

While the journey took a bit longer as an "accountable" business that actually relied on customer revenues to pay the bills, we realized the success of our bootstrapped path in 2003 when MedeAnalytics revenues hit $5 million. At that point, we recognized that it was time to raise growth capital if we were going to efficiently scale our sales and marketing organizations – necessary steps if we were going to grow.

How did the business grow after that?

Within the 24 months following our first venture round, MedeAnalytics has grown into a $30+ million run-rate with all recurring revenue. A key to our success was raising "smart" capital from experienced investors to finance scaling the business. In addition, we recruited the necessary executive talent to steer the company in the right direction. By using our resources wisely and taking a patient approach to building the business, MedeAnalytics is now on a clear path to success for its shareholders. During our journey, we identified three important guidelines for successfully bootstrapping a company.

Guideline #1: Before starting a business and taking capital, validate your products with real customer pain

Through my own personal experience, I came to realize that the healthcare system was a large market riddled by dysfunction and a broken claims management system. I started the prototype of MedeAnalytics to streamline claims administration, however, as with most businesses, the plan evolved as the company began to work with customers to identify their true pain points. Thankfully, we had not raised any venture capital at the early stage of the company, so we had the flexibility to shift directions. My expenses were low enough that we could appoint adequate time to honing on real market needs.

We went through several iterations of the company over the next five years before hitting the winning formula. It was largely a game of trial, error and, eventually, success. Thankfully, because we were not tempted by too much early-stage capital in the beginning, I had maintained the largest equity stake in the company.

The big win for MedeAnalytics came in 1998. Customers were lukewarm with regards to the claims management business. In fact, we began to see the market as one with declining margins and undergoing heavy consolidation. So we looked even closer and learned that customers did have a keen interest, but in a different area: analytics platform and business process improvement solutions. We quickly responded to market demand and revamped the entire company focus. In the last seven years, we've seen revenues increase by over 100 percent annually.

Guideline #2: Bootstrap for the right reasons, raise capital for the right reasons

MedeAnalytics raised "friends and family" money that kept the company floating through 1998. This patient capital enabled us to be nimble during our formative years. We raised another $500,000 in seed money following the change in direction to a company focused on analytics. During this same period we were able to obtain and retire early $1 million in debt from investors and trading partners. However, as we approached our 10th customer and revenues hovered at $5 million, we quickly realized that we could not scale without more resources and support.

Now, bear in mind that I didn't really feel like we needed the money. We had $1 million in profits and $2 million in cash on the balance sheet. What we did need were smart resources. We needed a strong management team and board that could help grow the company into a $100 million business. I also wanted some liquidity. To scale the business the way we were going to grow it would require more risk, and I wanted to diversify some of my holdings. We also needed cash to grow aggressively, win major deals with partners, and potentially do some acquisitions. It was clear that it was time to raise some capital.

Guideline #3: When you decide to raise capital, find good partners to help grow your business

I knew that the right partners, especially our investor, were key if MedeAnalytics was going to get there with skin in the game. We worked with a consulting firm, Nucleus Partners, to help us present our story and the right information to potential investors. Sal De Trane, a partner at Nucleus, did a great job in making the right introductions. In fact, I liked him so much that today he is MedeAnalytics' VP of Finance and Corporate Development and a key member of our team.

We looked at almost a dozen venture capital firms and received interest from several investors before narrowing the field down to just two. In the end, we went with the team that we felt would add the most value as board members, a firm that specializes in working closely with bootstrapped companies – Kennet.

We selected Kennet because they knew how bootstrapped businesses operate, and they understood our motivations and desires for partnership and growth. We also trusted that they would spend time advising and helping us to scale the company, providing resources even beyond capital. These resources have been essential to our growth.

What advice do you have for founders of bootstrapped businesses debating whether to take capital?

Hindsight is always 20/20, and in our case we are fortunate that our early vision has led to a great outcome. We have launched many new products and hired several key executives that would have been impossible had we not received outside capital. Moreover, bootstrapping enabled me to retain enough equity that even after the financing I was a major shareholder.

Since raising our Series A round, business has been on a steady growth curve. We have attracted some excellent board members and the executive team has tripled. Our new corporate leaders have made invaluable contributions toward the success of the company.

Perhaps the biggest post-investment change that I have witnessed has been the pace of change in the business. Given our growth objectives, we are in a perpetual state of hiring people to match demand. Perhaps the most rewarding change has been moving from the old model where I "led the charge" on most initiatives, to working with a great team who can independently manage themselves and collaboratively manage the company.

MedeAnalytics still faces challenges like any business. However, challenges aside, we are a profitable company with a large backlog and a future that predicts revenue growth continuing at the current rapid pace through next year and beyond. Take it from me, patience, hard work, and determination can pay off if you don't lose your vision and you seize the opportunity to finance for growth when the time is right.

About the interviewer

Javier Rojas

Javier Rojas is a managing director at Kennet and leads its US investment activities. He is currently on the boards of MedeAnaltics, Daptiv, Go Internet Media, IntelePeer, and Kapow Technologies.

Prior to joining Kennet, he was a managing director of Broadview International and led their West Coast Software and Services practice. Javier specialized in advising high growth, early-stage companies on how to capitalize on emerging technology markets and partnering opportunities.

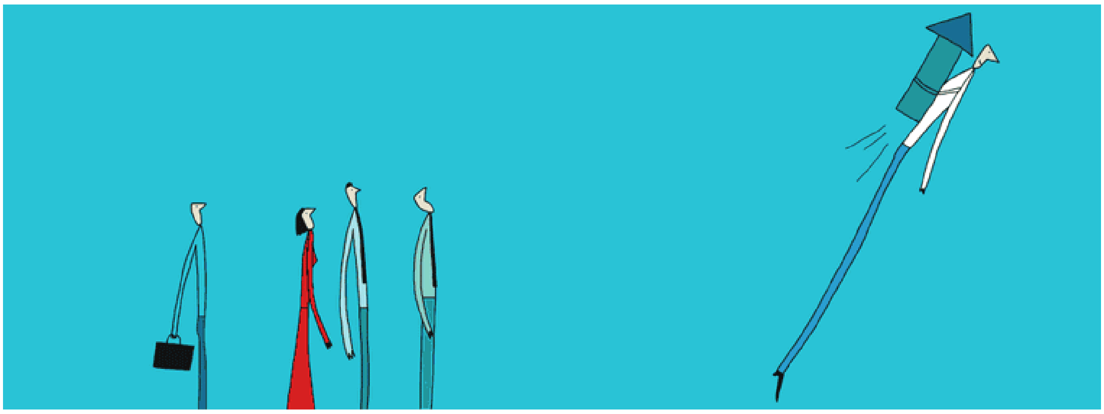
He invested and/or advised on a number of successful companies and high value exits including Etek, Webex, Looksmart, Blue Mountain Arts, When.com and Rightworks.

Previously, Javier was with Morgan Stanley. Earlier, he founded a software firm that developed products for capital markets interest rate and currency swap traders.

He holds an MBA degree from The Harvard Business School and a BAS degree from Georgetown University.

About us.

Kennet invests in entrepreneurial technology businesses to help them take the next big jump in growth.



We're an experienced growth equity investor with a long track record of building global market leaders and achieving high-value exits.

Since 1997 we have invested over $270 million in companies in Europe and the US.

As a growth equity investor, Kennet focuses on companies that have proven commercial success and are now ready for the next phase of growth.

The companies we invest in often do not need money to survive.

They have options. But the right investment from the right partner can help them keep ahead of their markets, expand internationally, ramp up their sales forces and lead to greater value for shareholders.

Visit us at www.kennet.com to learn more.

Silicon Valley

Kennet Partners LLC
950 Tower Lane, Suite 1710
Foster City, CA 94404

tel: +1 (650) 573-8700
fax: +1 (650) 573-8712

info@kennet.com

London

Kennet Partners Ltd
Nuffield House
41-46 Piccadilly
London, W1J 0DS

tel +44 (0)20 7839 8020
fax +44 (0)20 7434 2973

info@kennet.com